

3 Numbers That Prove **Hermès** Is Financially World-Class



CASE STUDY
VALUATION MASTER CLASS

by

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RESEARCH

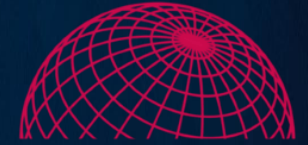


HERMÈS
PARIS



Imagine a brand so iconic, its products are more sought after than the newest iPhone

- ★ People wait years just to own its products
- ★ It's not a tech giant—it's Hermès, the ultimate symbol of luxury!

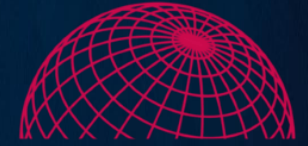


CASE STUDY VALUATION MASTER CLASS

by
A. Stotz INVESTMENT
RESEARCH

Andrew Stotz, PhD, CFA

In this video, I'm going to show you 3 Numbers That Prove Hermès Is Financially World-Class



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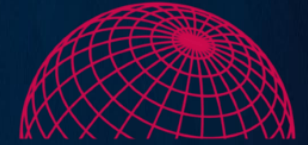
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Andrew Stotz, PhD, CFA

Welcome to this Valuation Master Class Case Study!

- ★ My name is Andrew Stotz, and I am a financial analyst and have been teaching valuation since 1992
- ★ Want to dive deeper into this valuation? Click the link to download this presentation and access my Global Stock Tracker, featuring 500 top companies to help you discover interesting stocks!



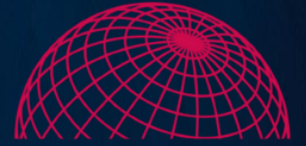
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Andrew Stotz, PhD, CFA

In this video we will

- ★ **Discover** how Hermès uses scarcity to create luxury dominance and massive margins
- ★ **Analyze** Hermès' competitive advantage, with a special focus on its crazy cash levels
- ★ **Evaluate** Hermès' potential using my Global Stock Tracker, and consider its impressive free cash flow



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3 Numbers That Prove Hermès Is Financially World-Class



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


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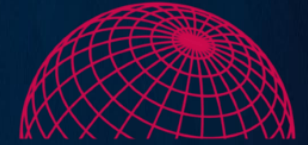
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or investment advice.**

Company background

-  What is management's competitive strategy?
-  Does that strategy lead to a competitive advantage?
-  What does the valuation look like?

The 2nd largest luxury company in the world

- ★ Hermès is a French luxury brand founded in 1837, renowned for its exceptional craftsmanship and timeless design in leather goods, fashion, and accessories



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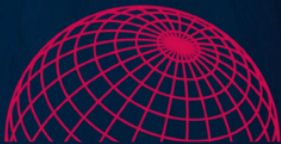
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Ranked 4th in the Top 10 Most Valuable Luxury Brands 2024 by Brand Finance

Top 10 Most Valuable Luxury & Premium Brands 2024



1 =	 PORSCHE \$43.1 bn 	2 =	LOUIS VUITTON \$32.2 bn 	3 =	 CHANEL \$26.1 bn 	4 ▲	 HERMÈS PARIS \$16.7 bn 	5 ▼	GUCCI \$14.9 bn
6 =	DIOR \$14.7 bn 	7 ▲	 ROLEX \$13.8 bn 	8 ▼	Cartier \$13.6 bn 	9 ▲	 \$10.6 bn 	10 ▼	TIFFANY & CO. \$8.5 bn

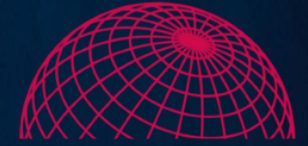


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Iconic products include the Birkin and Kelly bags, silk scarves, and handcrafted leather goods



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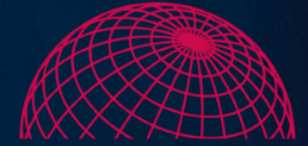
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Over 40% of total sales comes from leather goods and saddlery



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Sources: Hermès.com

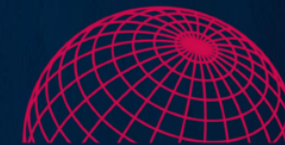


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30% comes from ready-to-wear and accessories



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The remaining 30% comes from silk and textiles, perfumes, watches, and other Hermès segments

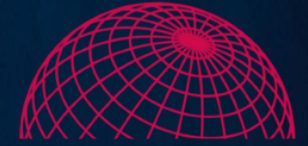


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Established in Paris in 1837 by Thierry Hermès, specializing in premium harnesses and saddles



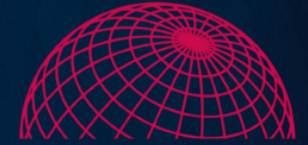
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 188 years old

In 1920, introduced handbags, accessories, and zippers in luxury leather goods

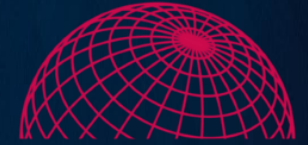


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In 1993, Hermès went public with the Dumas family, the Hermès heirs, retaining control

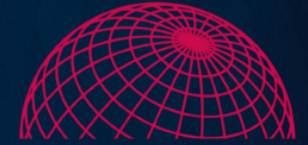


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In 2010, Louis Vuitton began secretly acquiring a significant 17% stake in Hermès



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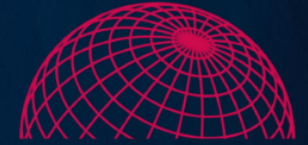
- 🌐 Hermès viewed this as a hostile takeover attempt, leading the family to create a holding company, H51, to consolidate their shares and block Louis Vuitton

LVMH's actions resulted in legal battles, and in 2014 they agreed to divest their stake



**This is not a recommendation
or investment advice.**

Sources: Hermès.com, finance.yahoo.com, Wikipedia



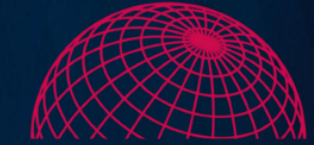
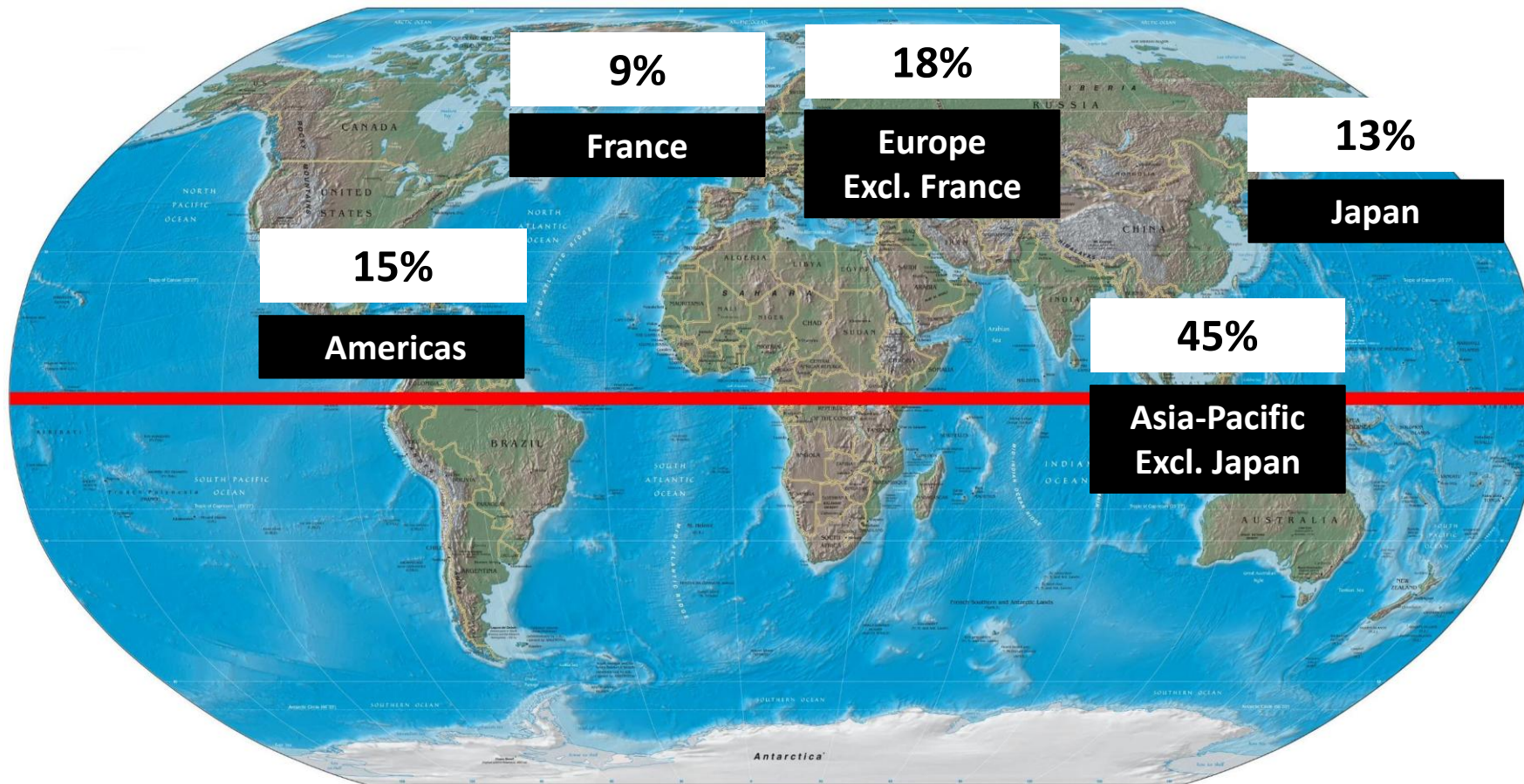
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- 🌐 The conflict ended with Hermès maintaining its independence and preserving its family-controlled legacy

Hermès has successfully built a global footprint as one of the most iconic luxury brands



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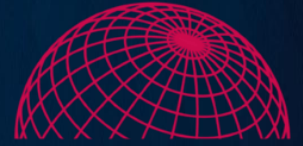
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- There is still significant growth potential in emerging markets like India, Vietnam, and Africa, where the luxury market is growing due to rising wealth and urbanization

Recap: Company background

- Hermès is the 2nd largest luxury company in the world
- The family has maintained control
- Hermès has significant growth potential in emerging markets



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- Company background
- **What is management's competitive strategy?**
- Does that strategy lead to a competitive advantage?
- What does the valuation look like?

Hermès - France - Founded 1837

Cons. Disc. sector, 23,200 employees, EUR13bn revenue

Main segments/products/divisions

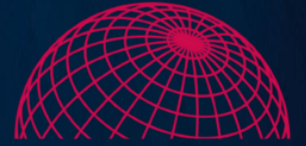
- Leather Goods & Saddlery
- Ready-to-Wear & Accessories
- Perfumes

Its competitive advantage

Competitive advantage through superior craftsmanship, exclusivity, and luxury brand positioning

How it achieved its competitive advantage

Achieved by upholding exceptional quality standards, limited production quantities, carefully controlling distribution channels, and nurturing a strong reputation for high-end fashion and accessories



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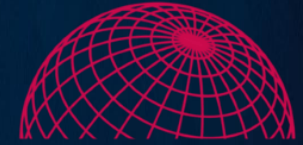
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HERMÈS
PARIS

In this video we will

- ★ **Discover how Hermès uses scarcity to create luxury dominance and massive margins**
- ★ Analyze Hermès' competitive advantage, with a special focus on its crazy cash levels
- ★ Evaluate Hermès' potential using my Global Stock Tracker, highlighting its impressive free cash flow



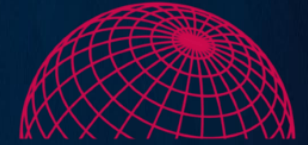
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Scarcity is the key to its uniqueness

- ★ By intentionally limiting production and maintaining tight control over distribution, Hermès creates a sense of scarcity and exclusivity around its products
- ★ Hermès products need to be ordered months before they are ready and available for sale
- ★ Each handbag is made entirely by a single artisan



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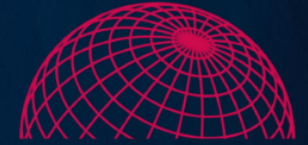
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Hermès is renowned for its unwavering commitment to quality and craftsmanship



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Sources: Hermès.com



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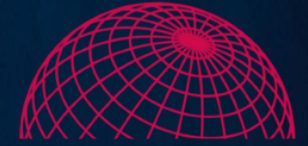
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- Each leather artisan undergoes a mandatory two-year training before contributing to product assembly, ensuring exceptional standards

The Hermès Birkin and Kelly bags are the ultimate status symbols

- ★ With prices reaching over US\$300,000 for their exotic leather models, these bags represent exclusivity, craftsmanship, and heritage
- ★ Owning one signifies not just wealth but access to a rarefied world, as they're notoriously difficult to purchase, even for the ultra-rich



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Brand collaboration and limited edition products make Hermès even more rare and unique

Apple Watch-Hermès Line



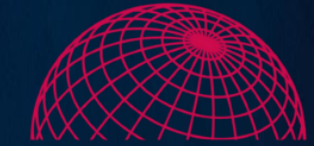
Bugatti Chiron Hermès



Rolls Royce Phantom Hermès



McLaren Speedtail Hermès



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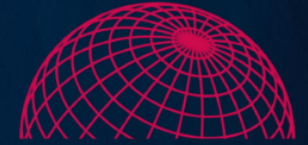
- These product attracts both longstanding clients and new generations of luxury consumers

Hermès employs a marketing strategy that emphasizes its rich heritage and exclusivity



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Sources: Hermès.com



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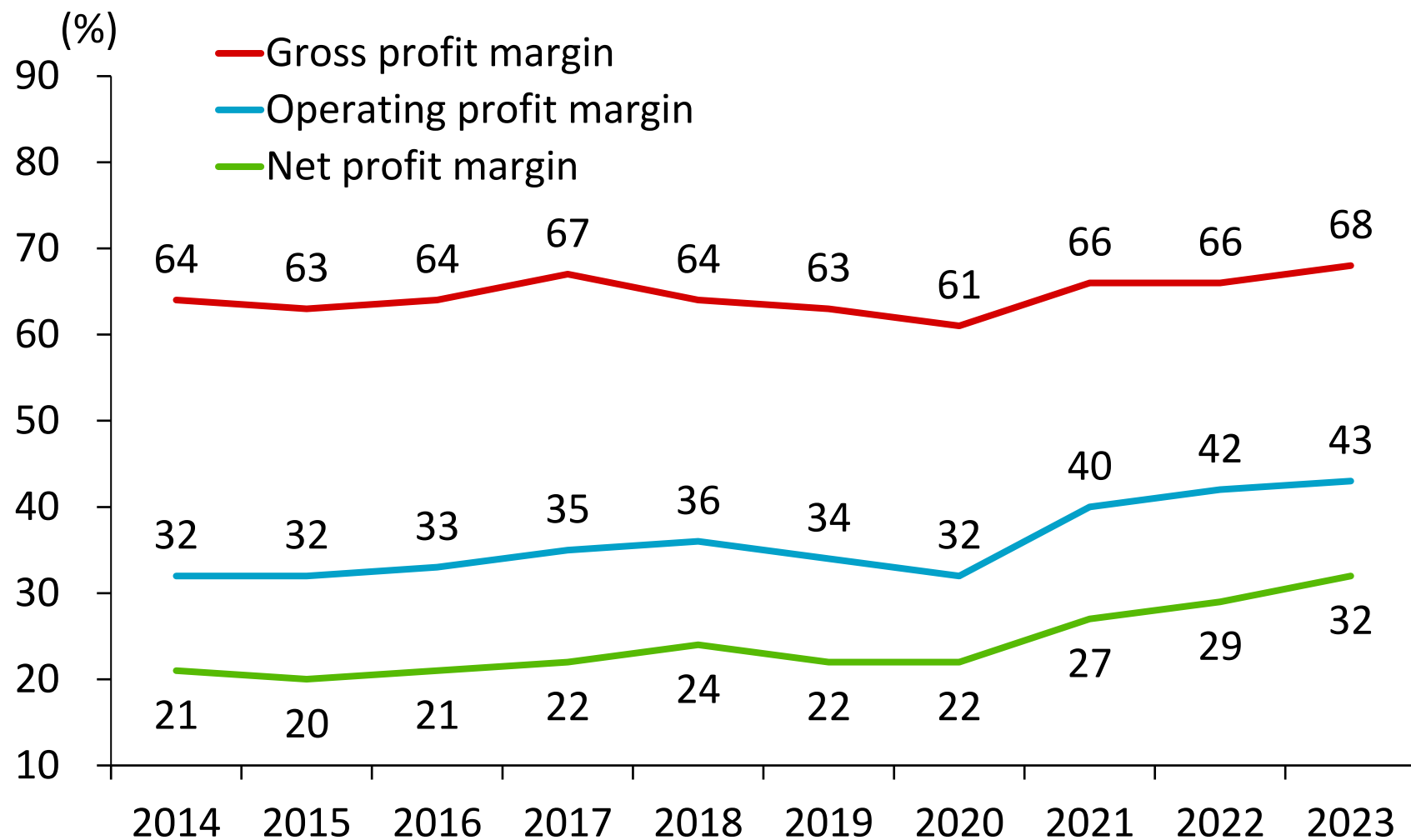
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- By avoiding celebrity endorsements and discounts, the brand upholds timeless luxury and authenticity

Measure #1: 68% gross profit margin



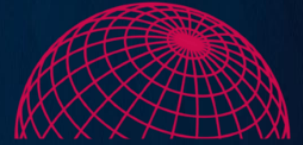
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Recap: What is management's competitive strategy?

- Hermès' competitive advantage lies in its scarcity-driven exclusivity and exceptional craftsmanship
- This strategy maintains its position as the ultimate luxury brand
- The proof is its sustained 68% gross profit margin



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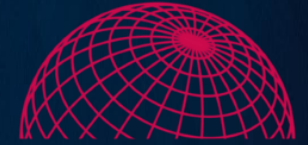
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- Company background
- What is management's competitive strategy?
- **Does that strategy lead to a competitive advantage?**
- What does the valuation look like?

I use my **World Class Benchmarking** scorecard to measure if a company has a **competitive advantage**



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I developed this scorecard 10 years ago; here's how we construct it

- ★ My team gathers the yearly and quarterly financial data of 26,000 companies worldwide
- ★ We then calculate each company's **Profitable Growth** score
 - Which is a composite measure of both profitability and growth



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I developed this scorecard 10 years ago; here's how we construct it

- ★ After that, we rank the company relative to sector peers of similar size
 - A decile ranking of 1 or 2 is financially world class, while 10 is the worst
- ★ We assess the company's performance over the prior four years and the past 12 months (PTM)



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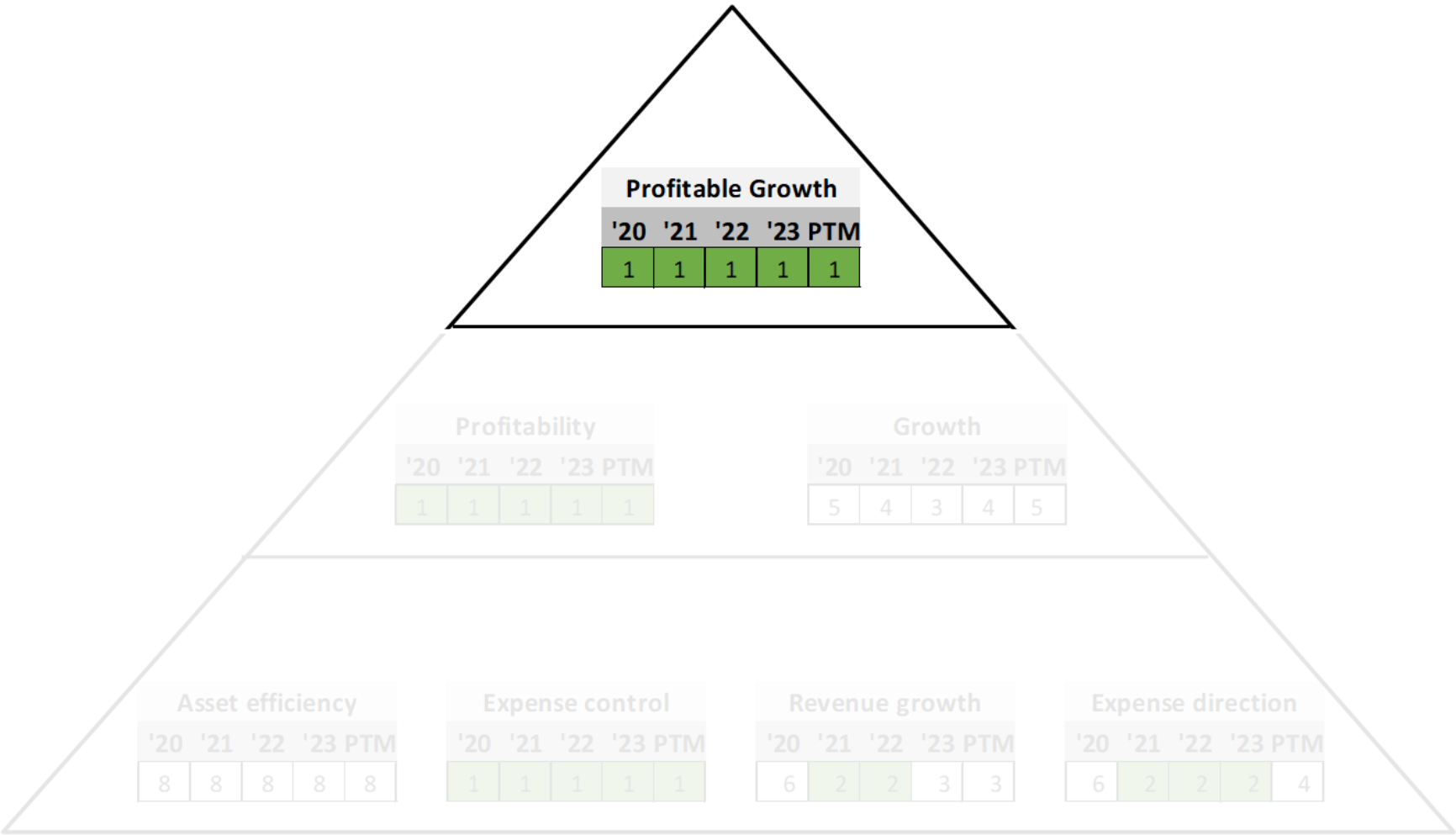
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**Is the company
financially
world class?**

In this video we will

- ★ Discover how Hermès uses scarcity to create luxury dominance and massive margins
- ★ **Analyze Hermès' competitive advantage, with a special focus on its crazy cash levels**
- ★ Evaluate Hermès' potential using my Global Stock Tracker, highlighting its impressive free cash flow

Hermès: A. Stotz Profitable Growth



Benchmarked against 940 large Cons. Disc. companies worldwide.

This is not a recommendation or investment advice.

Sources: A. Stotz Investment Research. Notes: 1 = top ranking and 10 = worst. Most recent year's data is based on the past 12 months (PTM) of published data.



CASE STUDY

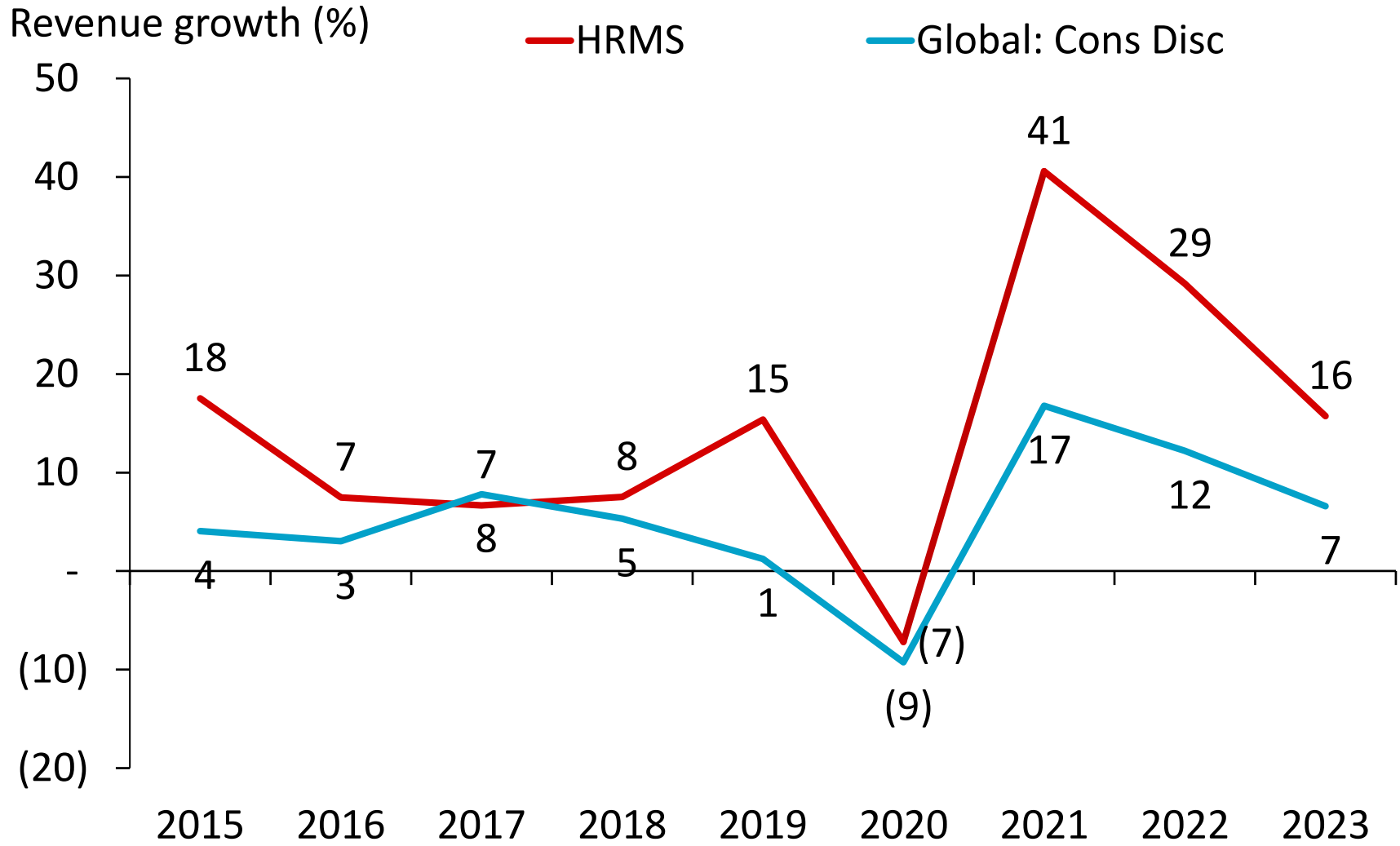
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Revenue CAGR from 2015 to 2023 was 11%, 6 ppts higher than the global sector average

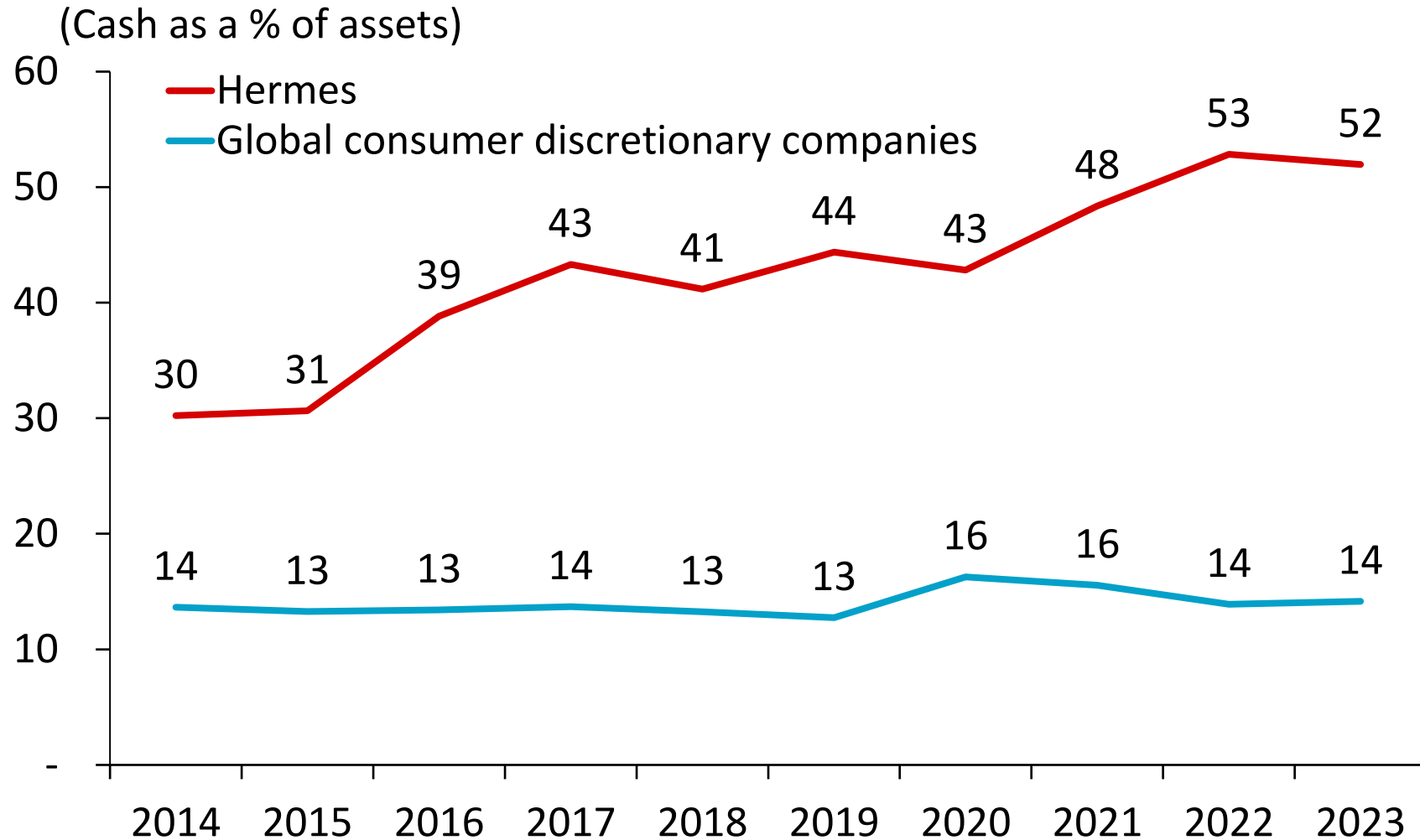


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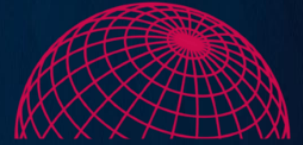
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Measure #2: At EUR10bn, 52% of its balance sheet is cash



Recap: Does its strategy lead to a competitive advantage?

- Yes
- Hermès has shown consistent profitable growth according to our scorecard
- Sustained profitable growth has allowed the company to accumulate massive amounts of cash



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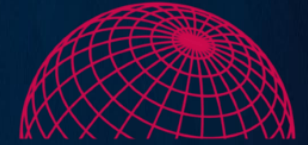
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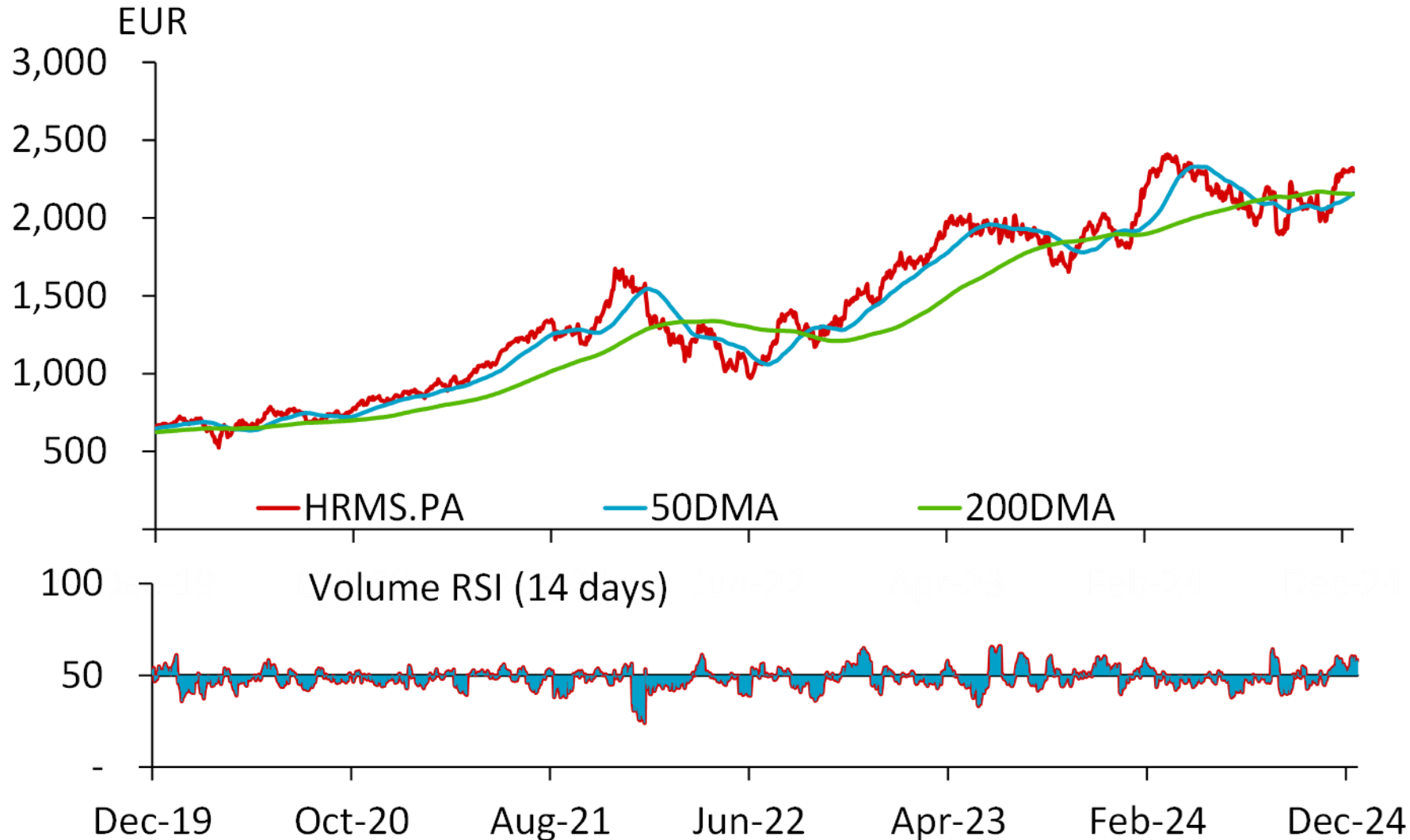
Price chart shows a steady uptrend reflecting robust performance and investor confidence



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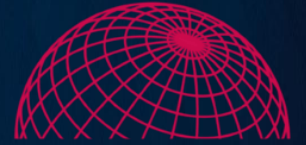
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Sources: A. Stotz Investment Research, Refinitiv

I use my **FVMR** methodology
to determine the
attractiveness of the
company



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Net profit margin (NPM)
Return on assets (ROA)

MANAGEMENT

EARNINGS

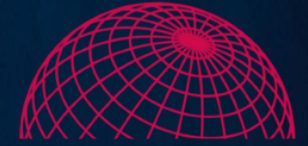
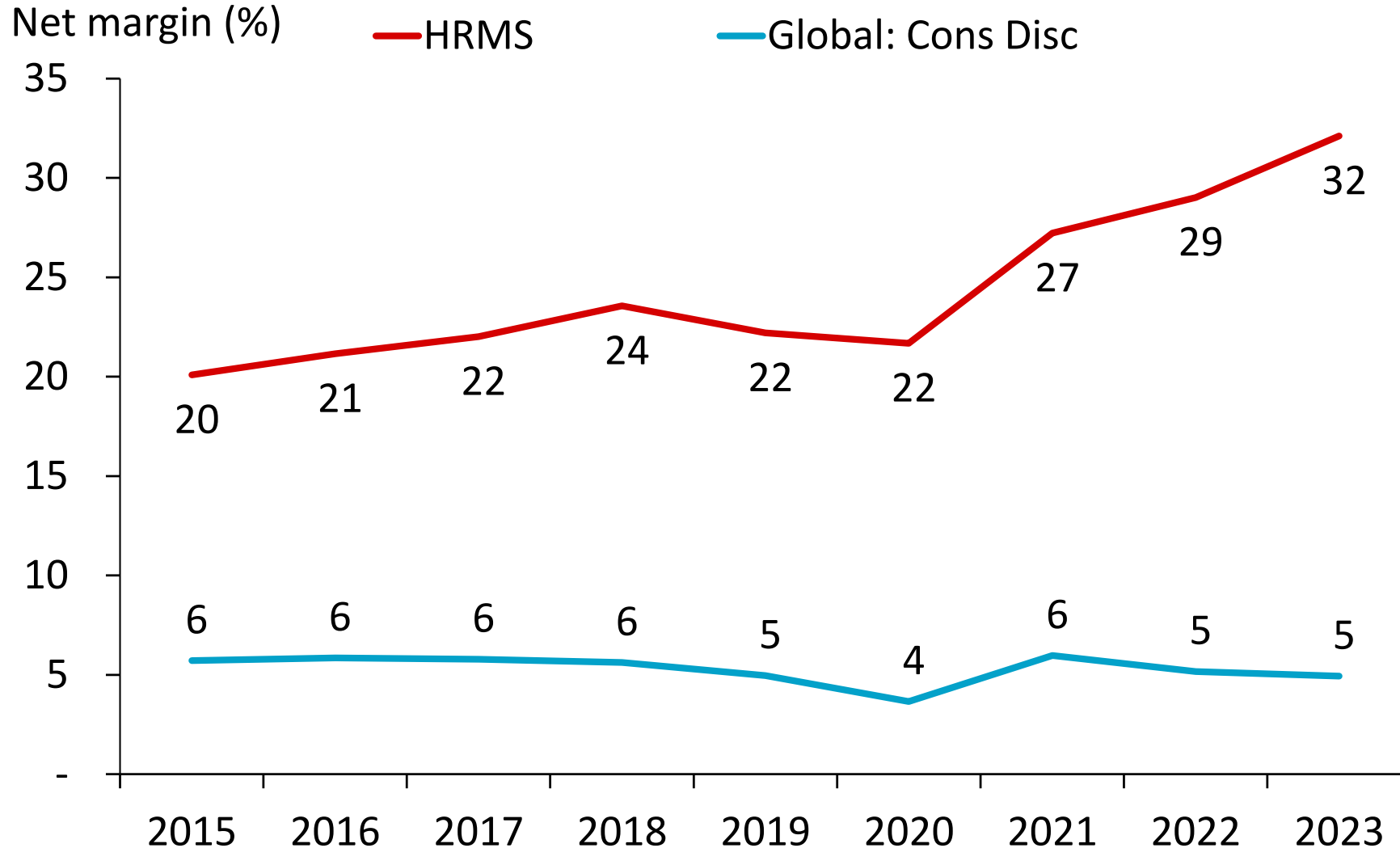
FUNDAMENTALS

FVMR

INVESTORS

PRICE

Net margin has consistently outperformed global sector average



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- Due to its exclusivity, premium pricing, and efficient operations, including in-house production and limited supply

MANAGEMENT

EARNINGS

FVMR

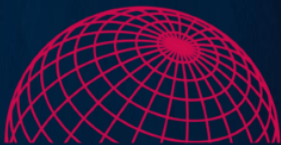
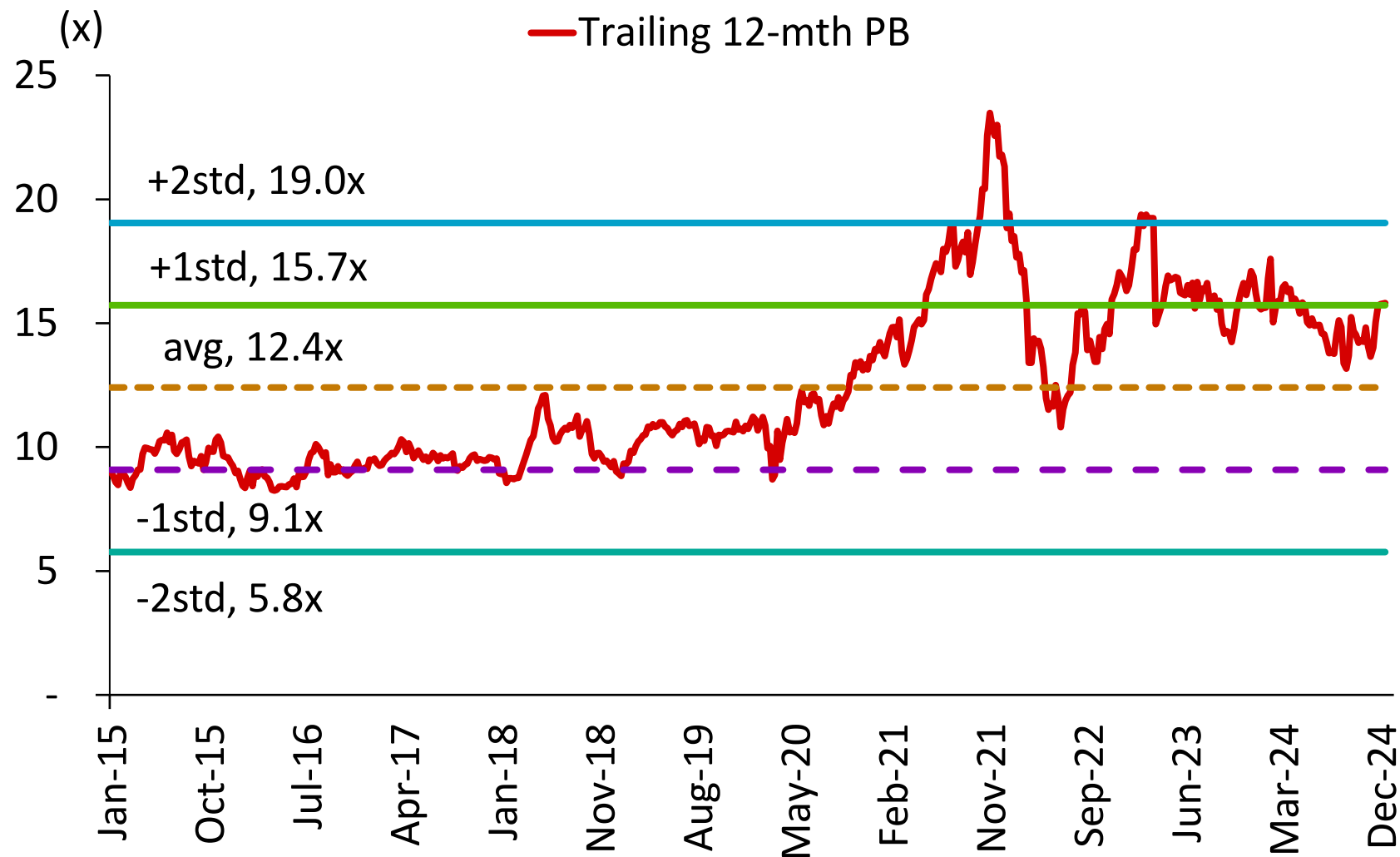
VALUATION

PRICE

INVESTORS

Price-to-earnings (PE)
Price-to-book value (PB)

Price-to-book value

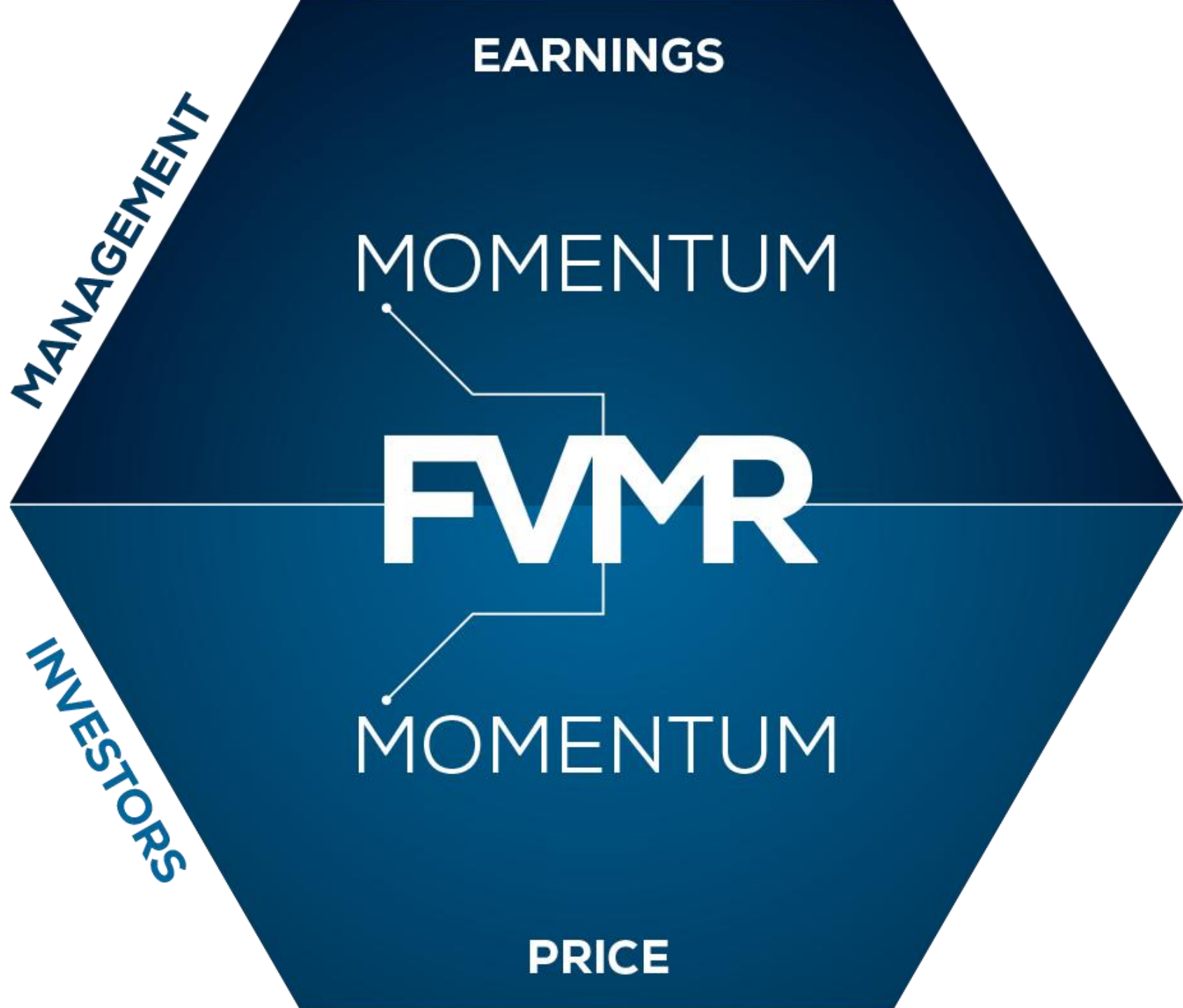


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EARNINGS

MANAGEMENT

MOMENTUM

FVMR

INVESTORS

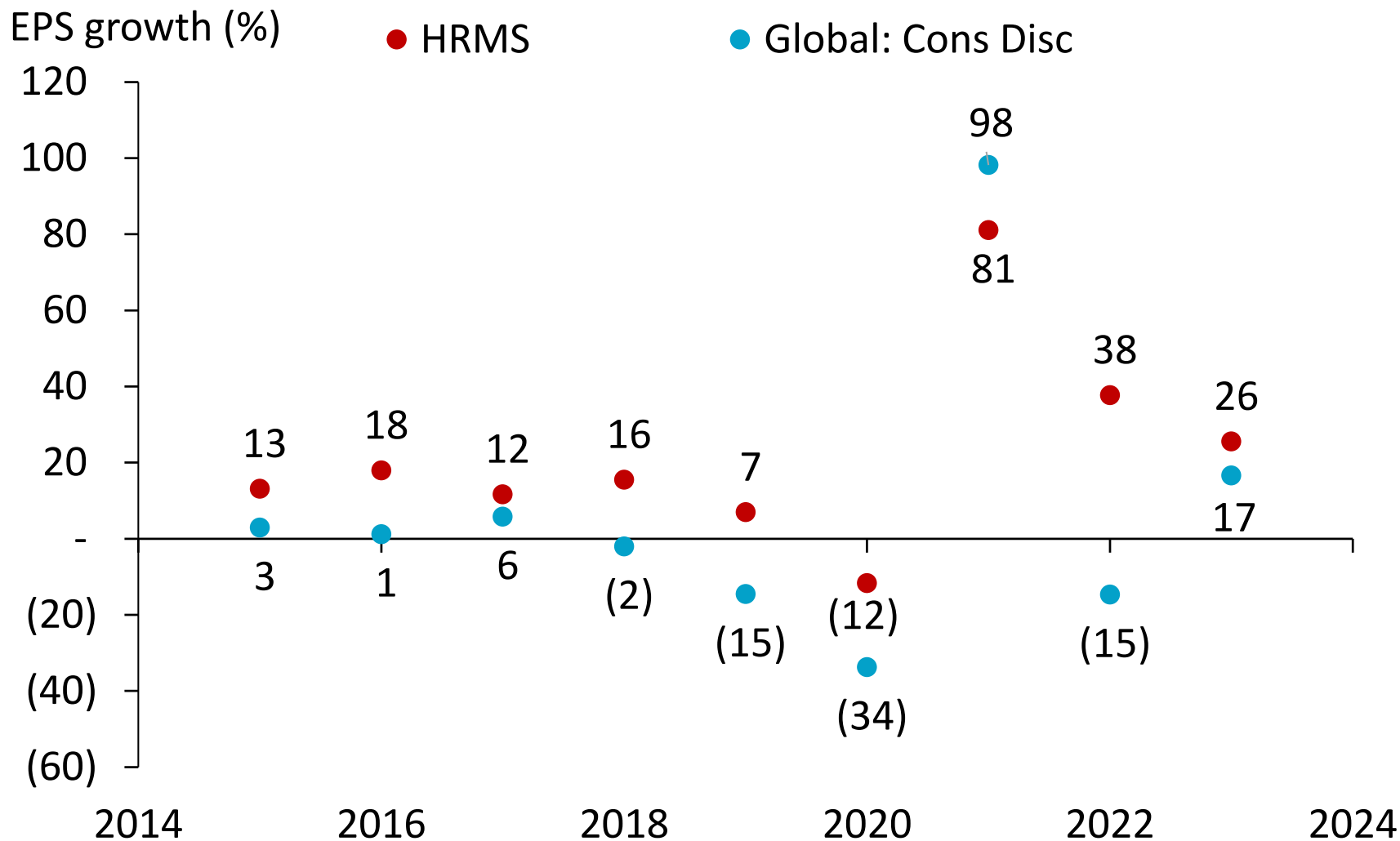
MOMENTUM

PRICE

EPS growth (EPS)

% Price change (Price*)

EPS CAGR from 2015 to 2023 was 19%, 15 ppts higher than the global sector average



MANAGEMENT

EARNINGS

RISK

FVMR

RISK

INVESTORS

PRICE

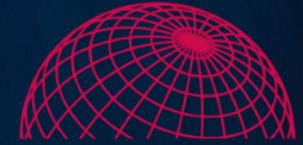
Net debt-to-equity (NDE)

Beta (Beta*)



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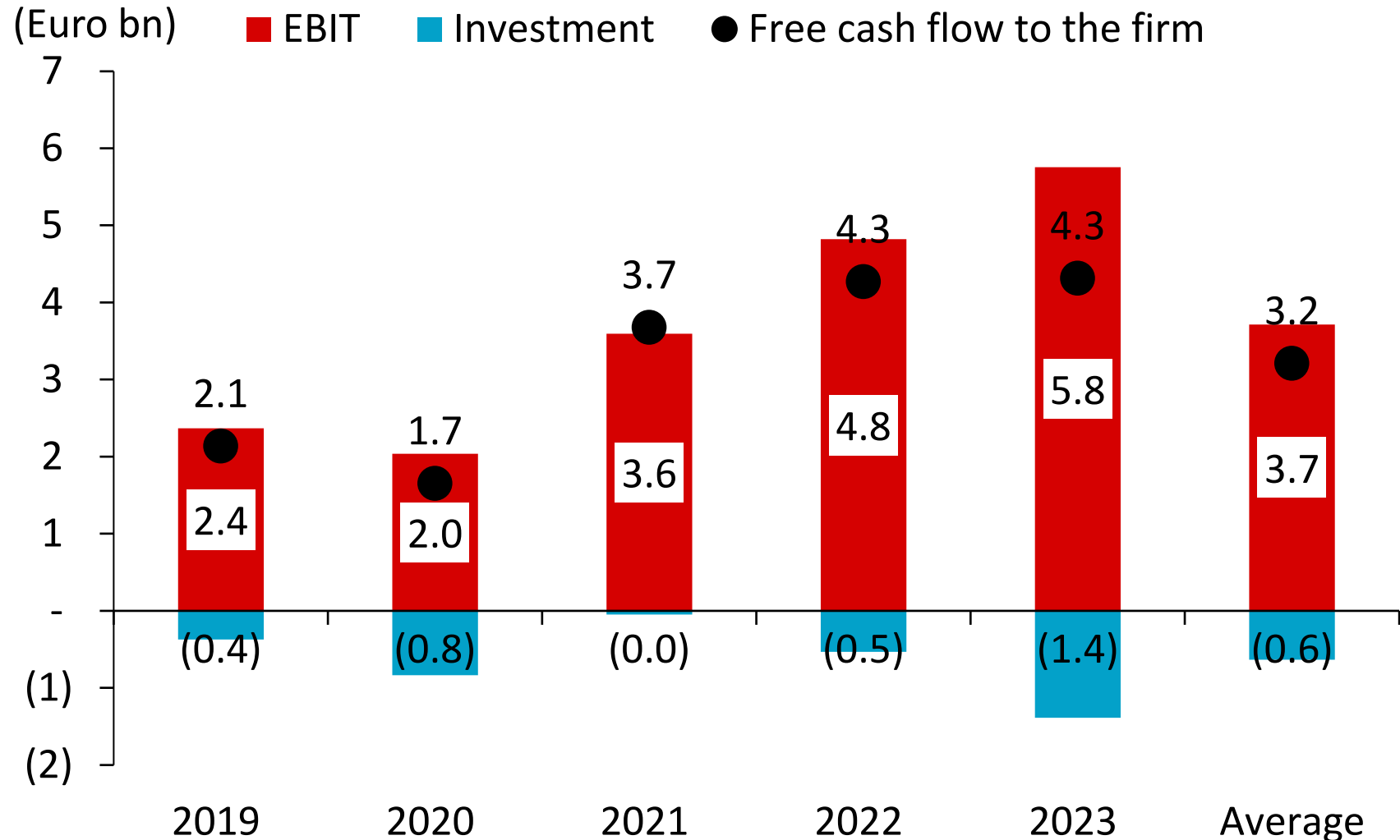


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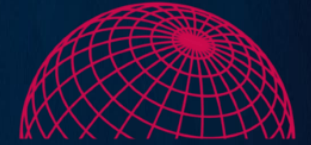
by
A. Stotz INVESTMENT
RESEARCH

Andrew Stotz, PhD, CFA

Measure #3: 86% of its operating profit flows through to free cash flow



Let's look at **Hermès** on my **Global Stock Tracker**



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NPM at 31%, Hermès shows the highest profitability among all competitors

A. Stotz FVMR Methodology - Cons. Disc.: Cons. Dura. & Apparel

Company	Exchange	Mcap US\$bn	Fund. (%)		Valuation (x)		Momo (% chg)		Risk (x)	
			NPM	ROA	PE	PB	EPS	Price*	NDE	Beta*
Cons. Disc.: Cons. Dura. & Apparel		1,452	15.3	11.6	29.3	6.6	14.6	2.1	0.3	0.7
LVMH Moët Hennessy Louis Vuitton	France	329.2	16.3	9.8	21.7	4.7	(12.7)	(4.9)	0.5	-
Hermes International SCA	France	251.5	31.3	22.4	52.0	15.3	12.5	6.8	(0.5)	1.0
Sony Group Corp	Japan	131.3	8.5	3.4	17.2	2.4	28.9	7.0	0.3	0.5
Christian Dior SE	France	112.3	6.8	4.2	17.8	4.5	(12.3)	(4.5)	3.6	1.0
Nike Inc	USA	109.7	10.0	13.0	22.4	7.8	(5.5)	(11.3)	(0.1)	0.7
Compagnie Financière Richemont SA	Switzerland	82.0	6.4	3.1	57.3	4.0	(16.3)	(5.7)	(0.1)	1.9
Midea Group Co Ltd	China	78.5	9.4	7.7	14.9	3.1	13.5	15.5	0.1	1.2
Lululemon Athletica Inc	USA	45.3	17.0	27.3	26.1	11.9	76.2	42.9	(0.3)	1.1
DR Horton Inc	USA	44.2	12.9	14.2	9.3	1.8	3.7	(27.8)	0.1	1.1
Adidas AG	Germany	44.1	1.9	2.2	95.5	7.5	310.5	(0.2)	1.0	1.3
Garmin Ltd	USA	39.3	25.5	18.0	25.9	5.2	45.0	18.9	(0.2)	0.6
Gree Electric Appliances Inc of Zhuhai	China	35.6	15.7	8.1	8.2	2.1	6.6	15.7	(0.4)	0.2
Haier Smart Home Co Ltd	China	34.5	7.0	7.4	13.3	2.5	15.1	15.5	0.0	1.1
Deckers Outdoor Corp	USA	31.1	18.8	28.3	35.5	14.0	47.0	29.7	(0.5)	0.7
Kering SA	France	30.1	11.3	5.2	13.3	1.9	(39.1)	(3.1)	0.7	0.8
ANTA Sports Products Ltd	HK	27.7	20.0	14.6	15.0	3.5	43.6	(25.3)	(0.3)	0.4
Panasonic Holdings Corp	Japan	25.6	4.0	3.8	10.9	0.8	(22.8)	17.0	0.1	0.5

Sector data is market cap weighted. *Price change and beta over the past three months as of 2 January 2025



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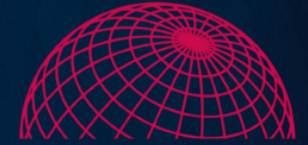
Andrew Stotz, PhD, CFA



Only 15 companies over US\$100bn have a net profit margin higher than Hermès

NPM at 31%, Hermès shows the highest profitability among all competitors

- ★ Remember to click the link in the description to get this presentation and my Global Stock Tracker for the world's top 500 companies sent directly to your inbox every week



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3 Numbers That Prove **Hermès** Is Financially **World- Class**



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HERMÈS
PARIS

